



UNITED STATES ATTORNEY'S OFFICE
Southern District of New York

U.S. ATTORNEY PREET BHARARA



FOR IMMEDIATE RELEASE
Thursday, July 25, 2013
<http://www.justice.gov/usao/nys>

CONTACT: U.S. ATTORNEY'S OFFICE
Jerika Richardson, Julie Bolcer,
Jennifer Queliz
(212) 637-2600

FBI
Jim Margolin, J. Peter Donald,
Kelly Langmesser, Adrienne Senatore
(212) 384-2100

**MANHATTAN U.S. ATTORNEY AND FBI ASSISTANT DIRECTOR-
IN-CHARGE ANNOUNCE INSIDER TRADING CHARGES AGAINST
FOUR SAC CAPITAL MANAGEMENT COMPANIES AND SAC
PORTFOLIO MANAGER**

*SAC Management Companies Allegedly Engaged in Decade-Long Insider Trading Scheme on a
Scale Without Known Precedent in the Hedge Fund Industry*

*SAC Portfolio Manager Responsible for \$1.25 Billion "Special Situations" Fund Has Pled
Guilty to Insider Trading*

Preet Bharara, the United States Attorney for the Southern District of New York, and George Venizelos, the Assistant Director-in-Charge of the New York Office of the Federal Bureau of Investigation ("FBI"), announced today the unsealing of insider trading charges against four companies – S.A.C. CAPITAL ADVISORS, L.P. ("SAC Capital LP"), S.A.C. CAPITAL ADVISORS, LLC ("SAC Capital LLC"), CR INTRINSIC INVESTORS, LLC ("CR Intrinsic"), and SIGMA CAPITAL MANAGEMENT, LLC ("Sigma Capital"), collectively (the "SAC Companies"). The SAC Companies are responsible for the management of a group of affiliated hedge funds, collectively (the "SAC Hedge Fund" or "SAC"). Charges were also unsealed today against RICHARD LEE, a portfolio manager employed by SAC Capital LP, who focused on "special situations" like mergers and acquisitions, private equity buy-outs, and corporate restructurings in publicly-traded companies across various industry sectors. LEE pled guilty on July 23, 2013, before U.S. District Judge Paul G. Gardephe, to conspiracy and securities fraud charges in connection with his work at SAC Capital LP.

The SAC Companies are charged with criminal responsibility for insider trading offenses. These alleged offenses were committed by numerous employees, occurred over the span of more than a decade, and involved the securities of more than 20 publicly-traded companies across multiple sectors of the economy. It is charged that the acts of these employees were made possible by institutional practices that encouraged the widespread solicitation and use of material, non-public information ("Inside Information"). This activity allegedly resulted in

hundreds of millions of dollars in illegal profits and avoided losses at the expense of members of the investing public. The SAC Companies are expected to be arraigned on the charges on tomorrow at 10:00 a.m. before U.S. District Judge Laura Taylor Swain.

Manhattan U.S. Attorney Preet Bharara said: “A company reaps what it sows, and as alleged, S.A.C. seeded itself with corrupt traders, empowered to engage in criminal acts by a culture that looked the other way despite red flags all around. S.A.C. deliberately encouraged the no-holds-barred pursuit of an ‘edge’ that literally carried it over the edge into corporate criminality. Companies, like individuals, need to be held to account and need to be deterred from becoming dens of corruption. To all those who run companies and value their enterprises, but pay attention only to the money their employees make and not how they make it, today’s indictment hopefully gets your attention.”

FBI Assistant Director-in-Charge George Venizelos said: “Our aim all along has been to root out the wrongdoers, and send a message to anyone else inclined to break the law. If your information ‘edge’ is inside information, you can’t trade on it.”

According to the allegations in the five-count Indictment and the criminal Information to which LEE pled guilty, both of which were unsealed today in Manhattan federal court:

The SAC Hedge Fund operated as a collection of dozens of individual trading portfolios that covered nearly every trading sector of the economy. Each portfolio was headed up by a portfolio manager (“PM”), and supported by one or more research analysts (“RA”). SAC PMs had substantial discretion in managing the investments in their own portfolios, and were required by the SAC Companies to share the investment recommendations in which they had the greatest confidence with the owner of the SAC Companies (the “SAC Owner”). The SAC Owner managed the largest trading portfolio at SAC.

From 1999 through at least 2010, numerous employees of the SAC Companies obtained and traded on Inside Information, or recommended trades based on such information to SAC PMs or the SAC Owner. To date, eight SAC Company PMs and RAs have been charged and/or convicted in insider trading cases involving the SAC Hedge Fund, including LEE, who was charged and pled guilty earlier this week.

The systematic insider trading engaged in by SAC PMs and RAs was the predictable and foreseeable result of an institutional failure. The SAC business culture encouraged and tolerated the relentless pursuit of an information “edge,” with no meaningful commitment to ensuring that such an “edge” came from legitimate research and not Inside Information.

As charged in the Indictment, these institutional failings fell into three main categories:

First, the SAC Companies focused on recruiting SAC PMs and SAC RAs who had proven networks of public company contacts. The SAC Companies, however, did not make any corresponding effort to ensure that prospective SAC PMs and SAC RAs did not use these contacts to obtain illegal Inside Information. For example, in a November 16, 2008, e-mail forwarded to the SAC Owner, an SAC PM candidate in the industrial sector was recommended in part because he had “a house in the Hamptons with the CFO” of a Fortune 100 industrial sector company. In another instance, the SAC Companies hired LEE despite a warning to the SAC Owner from LEE’s prior employer, that LEE had been a member of an insider trading

group at that hedge fund. LEE ultimately traded on Inside Information in the \$1.25 billion “special situations” SAC portfolio he jointly managed with a second SAC PM.

Second, employees of the SAC Companies were financially rewarded for recommending to the SAC Owner “high conviction” trading ideas, in which the SAC PM had an “edge” over other investors. In many cases, the employees were not questioned when making trading recommendations that appeared to be based on Inside Information. On numerous occasions, the SAC Owner failed to follow up with SAC employees who were promoting trading sourced to an “edge” from a contact at a public company or with similar language suggesting potential insider trading. On one occasion, the SAC Owner participated in a discussion with his employees on the topic of confidential information the SAC employees had said that they learned during a paid consultation session from a clinical investigator for a drug trial. During the discussion with his employees, the SAC Owner, a sophisticated trader with over three decades of experience, never questioned whether the drug trial data constituted Inside Information. In addition, the SAC Owner and SAC Companies cultivated an environment that emphasized not discussing Inside Information openly rather than not seeking or trading on it in the first place.

Third, the SAC Companies employed limited compliance measures designed to detect or prevent insider trading by SAC PMs or SAC RAs. They failed to routinely monitor employee e-mails for indications of insider trading until late 2009, even though SAC’s head of compliance had recommended such monitoring to SAC management four years earlier. Indeed, despite numerous documented cases of insider trading at SAC – established by, among other things, guilty pleas of six former SAC PMs and RAs, each predicated upon repeated insider trading over substantial periods of time – SAC’s compliance department contemporaneously identified only a single instance of suspected insider trading by its employees. In that one case, the SAC Companies permitted those involved to continue working at SAC and failed to report the conduct to regulators or law enforcement.

* * *

In addition to the Indictment, today the Government filed a civil forfeiture action (the “Forfeiture Complaint”) in Manhattan federal court, seeking the forfeiture of assets held by investment funds to which the SAC Companies served as investment advisors, assets held by affiliated investment funds, and assets held by the SAC Companies themselves. The Forfeiture Complaint alleges that the SAC Companies engaged in money laundering by commingling the illegal profits from insider trading with other assets, using the profits to promote additional insider trading, and transferring the profits with the assistance of financial institutions.

The SAC Companies are charged together in Count One of the Indictment with wire fraud, and each of the four SAC Companies is charged separately in Counts Two through Five with securities fraud. Each of the SAC Companies faces a maximum fine, for the securities fraud charges, of the greater of \$25 million, or twice the gross gain or loss derived from the offense on each charge.

The criminal Information unsealed today, to which RICHARD LEE pled guilty earlier this week, charges LEE with one count of conspiracy and one count of securities fraud in connection with insider trading between April 2009 through 2010, while he was employed by SAC Capital LP. LEE faces a maximum penalty of 20 years in prison for the securities fraud charge and five years in prison for the conspiracy charge. He also faces a maximum fine of \$5

million for the securities fraud charge and \$250,000 or twice the gross gain or loss derived from the offense on the conspiracy charge.

Of the seven other SAC Company portfolio managers and research analysts previously charged in insider trading cases involving the SAC Hedge Fund, five have pled guilty and await sentencing. They include:

- Jon Horvath, who pled guilty on September 28, 2012;
- Wes Wang, who pled guilty on July 13, 2012;
- Donald Longueuil, who pled guilty on April 28, 2011;
- Noah Freeman, who pled guilty on February 7, 2011; and
- Richard Choo-Beng Lee, who pled guilty on October 13, 2009

Charges are still pending against the remaining two defendants previously charged in connection with SAC, Michael Steinberg and Mathew Martoma, who are presumed innocent unless and until proven guilty.

Mr. Bharara praised the efforts of the FBI and also thanked the U.S. Securities and Exchange Commission for its assistance in the investigation. He added that the investigation is continuing.

This case was brought in coordination with President Barack Obama's Financial Fraud Enforcement Task Force, on which Mr. Bharara serves as a Co-Chair of the Securities and Commodities Fraud Working Group. The task force was established to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. With more than 20 federal agencies, 94 U.S. attorneys' offices and state and local partners, it is the broadest coalition of law enforcement, investigatory and regulatory agencies ever assembled to combat fraud. Since its formation, the task force has made great strides in facilitating increased investigation and prosecution of financial crimes; enhancing coordination and cooperation among federal, state and local authorities; addressing discrimination in the lending and financial markets and conducting outreach to the public, victims, financial institutions and other organizations. Over the past three fiscal years, the Justice Department has filed nearly 10,000 financial fraud cases against nearly 15,000 defendants including more than 2,900 mortgage fraud defendants. For more information on the task force, please visit www.StopFraud.gov.

This case is being handled by the Office's Securities and Commodities Fraud Task Force. Assistant U.S. Attorneys Arlo Devlin-Brown, Antonia M. Apps and John T. Zach are in charge of the prosecution, and Assistant U.S. Attorney Micah Smith is responsible for the forfeiture aspects of the case.

The charges contained in the Indictment are merely accusations and the defendants are presumed innocent unless and until proven guilty.